



VIRGINIA WORKERS' COMPENSATION COMMISSION

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

AS OF
MAY 2020

Auditor of Public Accounts
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Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
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July 24, 2020

Evelyn McGill, Executive Director
Virginia Workers' Compensation Commission
333 E. Franklin Street
Richmond, VA 23219

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire for the **Virginia Workers' Compensation Commission** (Workers' Compensation). We completed the review on May 11, 2020. The purpose of this review was to evaluate if the agency has developed adequate internal controls over significant organizational areas and activities and not to express an opinion on the effectiveness of internal controls. Management of Workers' Compensation is responsible for establishing and maintaining an effective control environment.

Review Process

During the review, the agency completes an Internal Control Questionnaire that covers significant organizational areas and activities including payroll and human resources; revenues and expenses; procurement and contract management; capital assets; grants management; and debt. The questionnaire focuses on key controls over these areas and activities.

We review the agency responses and supporting documentation to determine the nature, timing, and extent of additional procedures. The nature, timing, and extent of the procedures selected depend on our judgment in assessing the likelihood that the controls may fail to prevent and/or detect events that could prevent the achievement of the control objectives. The procedures performed target risks or business functions deemed significant and involve reviewing internal policies and procedures. Depending on the results of our initial procedures, we may perform additional procedures including reviewing evidence to ascertain that select transactions are executed in accordance with the policies and procedures and conducting inquiries with management. The "Review Procedures" section below details the procedures performed for Workers' Compensation. The results of this review will be included within our risk analysis process for the upcoming year in determining which agencies we will audit.

Review Procedures

We reviewed a selection of system and transaction reconciliations in order to gain assurance that the statewide accounting system contains accurate data. The definitive source for internal control in the

Commonwealth is the Agency Risk Management and Internal Control Standards (ARMICS) issued by the Department of Accounts (Accounts); therefore, we also included a review of ARMICS. The level of ARMICS review performed was based on judgment and the risk assessment at each agency. At some agencies only inquiry was necessary; while others included an in-depth analysis of the quality of the Stage 1 Agency-Level Internal Control Assessment Guide, or Stage 2 Process or Transaction-Level Control Assessment ARMICS processes. Our review of Workers' Compensation's ARMICS program included a review of all current ARMICS documentation and a comparison to statewide guidelines established by Accounts. Further, we evaluated the agency's process of completing and submitting attachments to Accounts.

We reviewed the Internal Control Questionnaire and supporting documentation detailing policies and procedures. As a result of our review, we performed additional procedures over the following areas: payroll and human resources; revenues and expenses; contract management; and capital assets. These procedures included validating the existence of certain transactions; observing controls to determine if the controls are designed and implemented; reviewing transactions for compliance with internal and Commonwealth policies and procedures; and conducting further review over management's risk assessment process.

As a result of these procedures, we noted areas that require management's attention. These areas are detailed in the "Review Results" section below.

Review Results

We noted the following areas requiring management's attention resulting from our review:

- The Commission should improve internal controls over the physical inventory process. During our review we noted the following:
 - While the Commission performed the most recent physical inventory on 100 percent of capital assets, the inventory policy states audit sampling of at least 5-10 percent will be chosen randomly. Topic 30505 of the Commonwealth Accounting Policies and Procedures (CAPP) Manual requires either a wall-to-wall physical inventory of all capital assets recorded in the Commonwealth's fixed asset system, or conducting a physical inventory based on a generally accepted method of statistical sampling every two years. An overall statement of 5-10 percent does not meet this requirement. The Commission should update their inventory policy to be in alignment with the CAPP Manual and with the procedures they are actually performing. This will ensure that future inventories are performed in accordance with the CAPP Manual in the event of staff turnover.
 - The Commission maintains two systems of record related to capital assets. One system is the Commonwealth's fixed asset system used for financial reporting purposes, including

calculating depreciation, while the other is a capital asset management database for tracking capital assets and is the source for departmental inventories. However, the Commission has never reconciled the two systems. As a result, the inventories the Commission performs do not support the amounts in the financial reporting spreadsheets submitted to the Department of Accounts. If the Commission continues to use two separate systems for tracking and financial reporting, they should reconcile the systems to ensure the departments' inventory counts agree to the financial reporting records.

We discussed these matters with management on June 23, 2020. Management's response to the findings identified in our review is included in the section titled "Agency Response." We did not validate management's response and, accordingly, cannot take a position on whether or not it adequately addresses the issues in this report.

This report is intended for the information and use of management. However, it is a public record and its distribution is not limited.

Sincerely,

Martha S. Mavredes
Auditor of Public Accounts

JDE\vks



COMMONWEALTH of VIRGINIA

R. FERRELL NEWMAN, Chairman

WESLEY G. MARSHALL, Commissioner

ROBERT A. RAPAPORT, Commissioner

WORKERS' COMPENSATION COMMISSION

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JAMES J. SZABLEWICZ
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EVELYN MCGILL
Executive Director

JASON QUATTROPANI, CLERK

August 20, 2020

Martha Sedwick Mavredes, CPA, CGMA, Auditor of Public Accounts
James Monroe Building
PO Box 1295
Richmond, VA 23219

Dear Ms. Sedwick Mavredes:

We are in receipt of your INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS report. The report makes the following findings to improve internal controls over the physical inventory process,

- While the Commission performed the most recent physical inventory on 100% of capital assets, the inventory policy states audit sampling of at least 5-10 percent will be chosen randomly. Topic 30505 of the Commonwealth Accounting Policies and Procedures (CAPP) Manual requires either a wall-to-wall physical inventory of all capital assets recorded in the Commonwealth's fixed asset system, or conducting a physical inventory based on a generally accepted method of statistical sampling every two years. An overall statement of 5-10 percent does not meet this requirement. The Commission should update their inventory policy to be in alignment with the CAPP manual and with the procedures they are actually performing. This will ensure that future inventories are performed in accordance with the CAPP manual in the event of staff turnover.

Commission's Response: The Commission did complete a 100% physical inventory of capital assets despite the inventory policy stating an audit sampling of at least 5-10% chose randomly. The Commission has since updated its policy to align with the CAPP manual's required 100%.


- The Commission maintains two systems of record related to capital assets. One system is the Commonwealth's fixed asset system used for financial reporting purposes, including calculating depreciation, while the other is a capital asset management database for tracking capital assets and is the source for departmental inventories. However, the Commission has never reconciled the two systems. As a result, the inventories the Commission performs do not support the amounts in the financial reporting spreadsheets submitted to the Department of Accounts. If the Commission continues to use two separate

systems for tracking and financial reporting, they should reconcile the systems to ensure the departments' inventory counts agree to the financial reporting records.

Commission's Response: The Commission maintains these two systems to ensure all assets, despite the value, are recorded in our internal records. Going forward, the Commission will reconcile these two systems as suggested by the Auditor.

Thank you and your Audit Team for conducting the internal control audit of VWC. We appreciate the strong partnership with APA and look to respond to the recommendations accordingly.

Sincerely,

A handwritten signature in cursive script that reads "Evelyn V. McGill".

Evelyn V. McGill
Executive Director

EVM/jej